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SUBJECT: SHELL/SAKHALIN II: A VIEW FROM THE NETHERLANDS

REF: MOSCOW 10984

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PROPRIETARY INFORMATION. PLEASE HANDLE ACCORDINGLY.

¶1. (SBU) SUMMARY. A Shell representative recently offered his version of events at Sakhalin II and confirmed that the Government of Russia (GOR) had not revoked the project's environmental permit. Shell will continue to meet project deadlines and commitments without seeking to use political channels, unless GOR actions intensify. END SUMMARY.

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Shell and Sakhalin II: An Environmental History
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¶2. (SBU) In a follow up to Embassy Moscow reporting (reftel), Econoff recently spoke with John Crocker, Senior Advisor on the Middle East and Russia and Head of International Government Relations at Shell International, to hear his company's views on Russia's claims of environmental violations at Sakhalin II. He confirmed that the project's environmental license had not been revoked. Prior to its start in 2003, Crocker said Russian authorities provided the project with a State Environmental Expert Review (SEER) certification. The Russian Ministry of Natural Resources (MNR) then issued an Executive Order (EO), he added, that gave official power to the SEER and permitted work to commence on the project.

¶3. (SBU) Crocker explained that the SEER contained some 90 recommendations of which 49 have been completed. He said the remaining 41 were being addressed by Sakhalin Energy, a joint venture (JV) between Shell, Mitsubishi, and Mitsui, or were scheduled to be addressed at an appropriate time in the project. Crocker stressed that these were not violations, as reported by the press or as "alleged" by Oleg Mitvol, Deputy Chief of RosPrirodNadzor (RPN), the Russian Federal Service for Environmental Protection and Enforcement under the authority of the MNR.

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Recent Events: Shell's Story
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¶4. (SBU) According to Crocker, both Minister of Natural Resources Yuri Trutnev and Mitvol had suggested that Shell's Sakhalin environmental permit be canceled. After learning that a cancellation would entail a repeat of the approval

process, both Russian officials sought to cancel the EO instead. He said MNR then forwarded a recommendation to cancel the EO to RosTekhNadzor (RTN), Russia's Federal Service on Ecological, Technological, and Nuclear supervision, and issued a press release announcing the cancellation. However, RTN refused to support MNR's recommendation and issued its own press release, Crocker added, confirming that nothing had been canceled.

Relations with RPN, MNR

15. (SBU) Shell's relations with RPN and MNR, Crocker said, were good until mid-2006, when "something changed." No further meetings were held until the week of September 25 when Mitvol sought to bring 60 journalists and environmentalists to Sakhalin. Despite misgivings about Mitvol's intent, Shell agreed. Crocker said the Russian team staged "stunts," including requests for a 25-person boat for their 60-person party and complaints of "obstruction" upon receipt of a smaller boat. The team also sailed to meet divers who had "discovered" three-legged starfishes and later failed to appear for a meeting with Shell's Chief Executive. Instead, the team held a press conference where Mitvol announced \$50 billion in environmental damage, Crocker said.

16. (SBU) Crocker expressed concern that Russian authorities now sought to conduct a rolling audit that would "look at everything." Since two hundred audits had already been completed in 2006, this would be a repeat review. The Russians indicated that they would report by October 20, although from Shell's perspective "the conclusions are already written," he added.

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Explaining Russian Behavior: Shell's View

17. (SBU) Reiterating that the majority of the 41 outstanding recommendations could not be completed until later stages of the project, Crocker indicated that Russia's actions were designed to "soften up" and encourage Shell to "volunteer or give up something" in the future. Mitvol's accusations of violations and obstructionism by Shell were hard to counter when supported by false statements by RPN, he added. Shell was willing to accept professional, regular, and predictable environmental monitoring -- as had been the case up until the summer -- but since these difficulties had started, Shell had sought but been denied meetings with relevant senior Russian officials. Crocker said that some officials had even indicated to Shell that GOR actions were "not environmentally driven."

Explaining Russian Behavior: The Dutch Government View

18. (SBU) On October 10, Econoff discussed recent events with Natascha Soons, Policy Officer, Eastern Europe and Central Asia Division, Dutch Ministry of Foreign Affairs (MFA). Soons agreed that GOR actions were for "more than environmental reasons." Soons added that the GOR was pressuring Shell because of higher than expected project costs and because Gazprom sought involvement in the effort. Soons added that there would be no Dutch government involvement at this stage as Shell still needed to "sit down and negotiate" with the GOR.

Shell's Thoughts on Path Forward

19. (SBU) Meanwhile, Crocker said Shell was not worried given

its good environmental record. Moreover, Shell had no intention of changing its plans as the project was already 80 percent complete, and Sakhalin II would be the first to export Russian Liquified Natural Gas (LNG) and the first to deliver Russian gas to the U.S. Crocker would not comment on the future of the Sakhalin Energy JV, but noted that Sakhalin II was the only natural gas project in Russia without a Russian partner. He did indicate that having a Russian partner would be a "good thing."

¶10. (SBU) Crocker said Shell still planned to complete the project on time. He said Shell did not want to use political channels at this time or spark a "war of words" between the West and Russia, particularly as they had not had an opportunity to have a "sensible" meeting with Russian authorities to discuss and resolve current issues. "It may turn out that we need friends to speak," he commented, "but not for now." Crocker said he was meeting with State Department officials on a quarterly basis and would call on Embassy Moscow during a visit in November.
ARNALL